TENNESSEE GENERAL ASSEMBLY
FISCAL REVIEW COMMITTEE

FISCAL NOTE

HB 2675 - SB 2837

March 4, 2020

SUMMARY OF BILL: Establishes the *Tennessee Historic Buildings Revitalization Act* (Act). Establishes that any person who incurs costs and expenses for the rehabilitation of a certified historic structure, may take a tax credit against state tax liability, defined as liability incurred by any person for the following taxes: premium tax, retaliatory tax, income tax, business taxes, sales and use tax, bank and financial institution taxes, and any other premium tax, retaliatory tax, or income tax imposed by this state under any other law. Such tax credit shall be equal to the applicable percentage, equal to the following:

- For any certified historic structure located in enhancement counties categorized in tiers three and four as defined by the Department of Economic and Community Development (ECD), thirty percent (30%);
- For any certified historic structure located in an enhancement counties categorized in tier two, twenty percent (20%);
- For any certified historic structure located in an enhancement counties categorized in tier one, ten percent (10%); and
- For any certified historic structure that is located in a “designated Tennessee main street community” or a “Tennessee downtown community”, as defined by ECD, the applicable percentage shall be increased by five percent (5%).

Limits the amount of credits that may be awarded via this legislation to $300,000 per certified structure per annum, provided: the rehabilitation meets the United Secretary of the Interior’s Standards for Rehabilitation, as certified by the Tennessee Historical Commission (Commission), the certified structure is placed in service on or after January 1, 2022, and the total amount of qualified rehabilitation expenditures associated with the certified historic structure exceeds 50 percent of the purchase price of the certified historic structure. The amount of credits awarded to applicable structures cannot exceed $6,000,000 in aggregate per fiscal year. Requires that 50 percent of the $6,000,000 aggregate amount be reserved for awards to projects for tier three and four enhancement counties; however, if the Commission has not approved applications for such amount on or before April 1 of each fiscal year, any remaining credits may be used for any certified historic structure, regardless of its location.

The entire tax credit shall be earned in the year in which the certified structure, or portion of the structure, attributable to the qualified rehabilitation expenditures is placed into service. If the total credit earned exceeds the total tax liability for the year the property is placed in service, the amount which exceeds such liability may be carried forward for the next five years, or until the credit is used, whichever occurs first. Authorizes the sale, transfer, or assignment of credits to other individuals, and furthermore, such transferees may also sell, transfer, or assign such credits.

Requires the Commission to promulgate rules within 180 days of the effective date of this Act. Further authorizes the Commission to charge an issuance fee. Requires the Commission to submit a report to the Governor, the Speaker of the Senate, the Speaker of the House of Representatives, the Fiscal Review Committee, the Finance, Ways and Means Committee of the Senate, and the Finance, Ways and Means Committee of the House of Representatives that details the Commission's activities for the prior fiscal year. The report must also include, but is not to be limited to, all plans and projects, in addition to an accounting of revenues by source, expenditures, and project, and any recommendations for further legislative action.

ESTIMATED FISCAL IMPACT:

Increase State Revenue – $65,800/FY21-22 and Subsequent Years/ Historical Commission

Decrease State Revenue – $5,700,000/FY22-23 and Subsequent Years/ General Fund

Increase State Expenditures – $65,800/FY20-21 and Subsequent Years/ Historical Commission

Decrease Local Revenue – $300,000/FY22-23 and Subsequent Years

Other Fiscal Impact – Secondary economic impacts may occur as a result of this bill. However, due to multiple unknown factors, fiscal impacts directly attributable to such secondary economic impacts cannot be quantified with reasonable certainty.

Assumptions:

- To qualify for the tax credit, the certified historic structure must be placed in service on or after January 1, 2022, and meet other outlined requirements. Therefore, the first year in which tax credits will be claimed will be FY22-23.
- Based on information provided by the U.S. Department of the Interior, National Park Service, Technical Preservation Services in the annual statistical reports, the average total rehabilitation expenditures in Tennessee that qualified for the federal historic rehabilitation tax credit was estimated to be $2,737,927 for FY15-16, $34,249,316 for FY16-17, and $311,586,486 in FY17-18, or an average of $116,191,243.
- Due to the unknown applicable percentage that will be associated with qualified rehabilitation expenditures incurred on certified historic structures, an average percentage of 25 percent is assumed.
- The annual rehabilitation expenditures that would qualify for the tax credit, as established by this legislation, are estimated to be $29,047,811 ($116,191,243 x 25%).
- Due to the $6,000,000 cap set by the proposed legislation, it is assumed that the full $6,000,000 will be met in each fiscal year beginning with FY22-23.

- The tax credits may be used against the following tax liabilities: premium tax, retaliatory tax, income tax, business taxes, franchise and excise tax, and any other premium tax, retaliatory tax, or income tax imposed by this state under any other law.
- The tax liabilities of taxpayers which will use this credit are unknown.
- It is assumed that this credit will primarily impact General Fund collections and that the full amount of tax credit awarded of $6,000,000 will be claimed each year.
- Of this amount, unknown portions would have been allocated to local government under current law due to various statutory distributions associated with impacted taxes. For the purposes of this fiscal analysis, it is assumed that approximately five percent of the total amount of claimed tax credits would have been local revenue in the absence of this legislation.
- The recurring decrease in state revenue, beginning in FY22-23, is estimated to be $5,700,000 [$6,000,000 x (100% - 5%)].
- The recurring decrease in local revenue, beginning in FY22-23, is estimated to be $300,000 ($6,000,000 x 5%).
- Based on information provided by the Tennessee Historical Commission, the Commission will require one additional position to administer the proposed program. This employee will: review documents to determine if they are fully completed, accurate and compliant with the established standards; work closely with the Commission's federal tax credit reviewer in order to ensure that projects using both the state and federal tax credit programs are in agreement; review plans and specifications; work with architects and property owners; make site visits; attend meetings; speak at public events about the program; and respond to inquiries from the public and other stakeholders.
- It is assumed that this position will be involved in promulgation of rules and adoption of forms necessary to implement this Act. Therefore, the position will be needed in FY20-21.
- The recurring increase in the Commission's expenditures associated with this position is estimated to be $65,761 ($39,229 salary + $13,082 benefits + $13,450 travel, supplies and materials, and other), beginning in FY20-21.
- The Commission will set application and certification fees to offset the cost of administering the program. The first applications are anticipated to be received in FY21-22. The recurring increase in the Commission's fee revenue, beginning in FY21-22, is estimated to be $65,761.
- Any impact on revenue as a result of additional projects that will be undertaken only as a direct result of this legislation that would not be completed under current law would be considered forgone revenue. Due to multiple unknown factors, the extent of forgone revenue cannot be quantified with reasonable certainty.
- Secondary economic impacts may occur as a result of this legislation. Such impacts may be reflected as additional private capital investment leveraged by the proposed state tax credits, additional jobs created as a result of rehabilitation efforts that would be undertaken as a direct result of this legislation, additional commercial activity at restored historical properties, and increased property values at and around the restored properties. However, due to multiple unknown factors, fiscal impacts directly attributable to such secondary economic impacts cannot be quantified with reasonable certainty.

IMPACT TO COMMERCE:

Decrease Business Expenditures – $6,000,000/FY22-23 and Subsequent Years

Assumptions:

- This legislation will result in a decrease in tax liability for individuals and businesses that rehabilitate certified historic structures and follow certain standards and criteria.
- The amount of tax relief provided to such individuals and businesses is estimated to be $6,000,000 in FY22-23 and subsequent years.
- Secondary economic impacts may occur as a result of this legislation. Such impacts may be reflected as additional private capital investment leveraged by the proposed state tax credits, additional jobs created as a result of rehabilitation efforts that would be undertaken as a direct result of this legislation, additional commercial activity at restored historical properties, and increased property values at and around the restored properties. However, due to multiple unknown factors, any such impacts cannot be quantified with reasonable certainty.

CERTIFICATION:

The information contained herein is true and correct to the best of my knowledge.

Krista Lee Carsner

Krista Lee Carsner, Executive Director

/abw